HOUSING MARKET OUTLOOK

Gatineau[1]

CANADA MORTGAGE AND HOUSING CORPORATION

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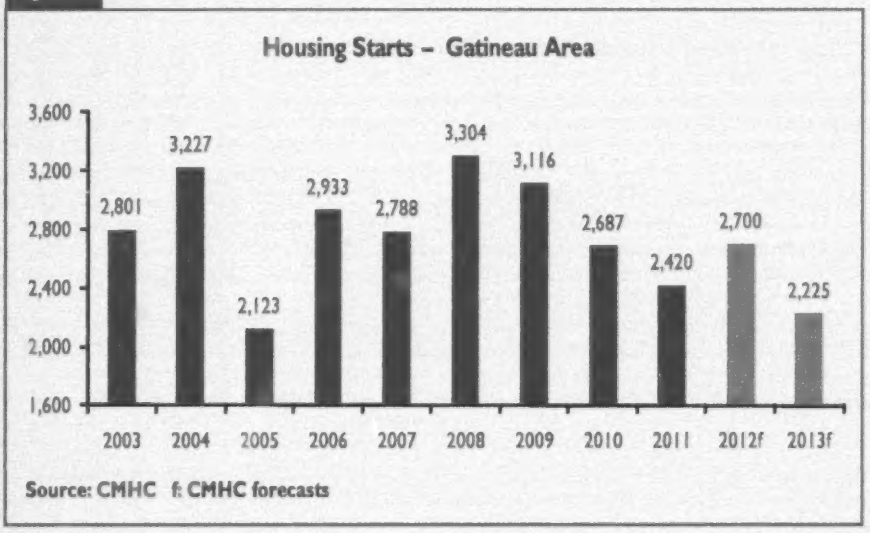
New home starts and MLS® sales to increase in 2012 in the Gatineau area[2]

In 2012, housing starts should increase by 12 per cent year over year and reach 2,700 units, as several significant condominium and rental apartment projects are planned. The economic and demographic environment is however less favourable to single-detached home starts, as a 14-per-cent decrease is to be expected in this segment in 2012. It should be recalled that in 2011, 2,420 units were started in the Gatineau area, which represented a decrease of 10 per cent compared to 2010 and marked one of the lowest levels recorded in the last ten years.

Figure 1



Source: CMHC f: CMHC forecasts

[1] Quebec part of Ottawa-Gatineau CMA

[2] The forecasts provided in this document are based on the information available on April 27, 2012

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In 2012, MLS® sales will rise slightly to 4,050 units (+5 per cent). A multitude of factors, explained in this report, point to this result. As was the case on the new home market, the resale market was slow last year in the Gatineau area. According to data from the Quebec Federation of Real Estate Boards (QFREB), 3,859 MLS® sales were registered in 2011, down 9 per cent from 2010, for the lowest level recorded in the last 10 years.

Labour market fuelled by private sector

In 2011, 172,500 people were employed in the Gatineau area, for an increase of 2 per cent from 2010. This gain concealed different realities, however: while employment grew in the private sector, it decreased in the public sector. The decrease in public service jobs should in fact continue over the next two years. In 2012 and 2013, only the private sector will fuel the labour market in the Gatineau area.

That being said, the private sector will not be able to maintain the growth at last year's level. Given this situation, employment in the Gatineau area should rise only slightly in 2012 and 2013, by 0.6 per cent in both years, to 173,500 jobs and 174,500 jobs, respectively. This sluggish, but still growing, labour market will provide some support to the housing market this year in Gatineau.

Net migration will decrease but remain positive

In 2011, net migration in the Gatineau area reached 2,641 people, a level similar to the average of the last five years. This high level represented a record number of immigrants and was also attributable to Gatineau's appeal in terms of the labour market and other characteristics among residents from other areas of Quebec and Canada.

Over the next few years, we expect this migration context to remain, but the net level should decrease slightly.

For one thing, the weak job prospects forecast for Gatineau in 2012 and 2013 will cause the number of Quebec and Canadian households wanting to settle in the area to decrease. In the final analysis, we expect that the housing market will benefit from migration gains of some 2,600 people in 2012 and 2013. In addition, from an international perspective, the decrease in the number of immigrants admitted at the provincial level will without a doubt have an impact on net migration in the Gatineau area. In spite of the fact that the area receives only 3 per cent of the immigrants arriving in Quebec each year, the Gatineau area should feel some effects.

Mortgage rates

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

MLS® sales to pick up this year

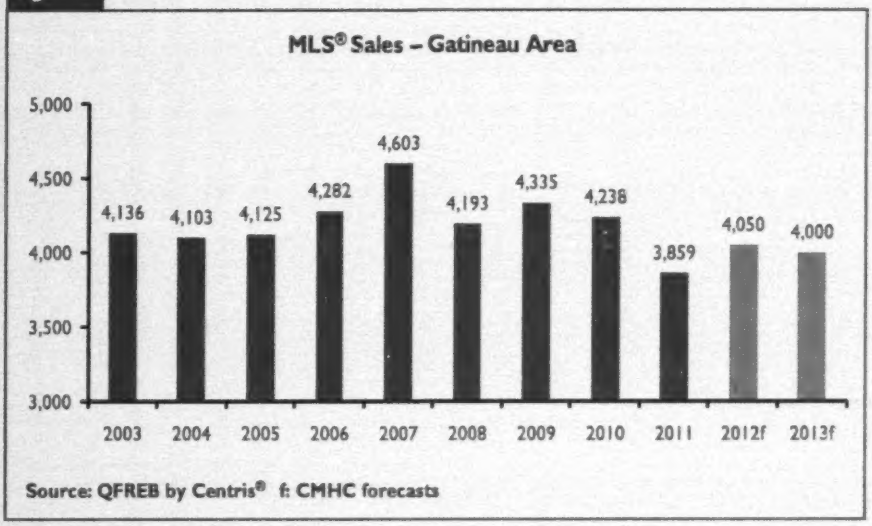
According to data from the Quebec Federation of Real Estate Boards (QFREB), MLS® sales in the Gatineau area dropped below 4,000 units for the first time in ten years last year. The limited supply and the uncertainty on the labour market are factors explaining this low level. However, at the end of 2011 and the beginning of 2012, MLS® sales started picking up again. This growth coincided with the increase in the supply of properties for sale on the MLS® system.

In fact, prior to mid-2011, new MLS® listings had been on the decline for almost two years in the Gatineau area, contrary to most other large urban centres in Quebec. As we mentioned in our previous report, one possible explanation was that many existing homes appeared to have been sold directly by the owners in the Gatineau area, which in turn decreased the potential number of sales recorded on the MLS® system.

The recent increases in the number of properties for sale gave buyers more choice on the market, which may therefore have contributed to the growth in MLS® sales posted in the last few months. Given that the supply of properties listed on the MLS® system is expected to continue growing this year, a gain in MLS® sales will be registered in 2012.

The historically favourable financing conditions also support an increase

Figure 2



Source: QFREB by Centris® f: CMHC forecasts

in the number of units sold. However, the sluggish labour market will prevent sales from reaching the sustained levels observed in the past few years (average of 4,200 sales over the last ten years). For all these reasons, 4,050 units will change hands in the Gatineau area in 2012, for an increase of 5 per cent year over year.

The faster rise in supply than demand suggests that the market will be trending increasingly toward a balance, but will remain favourable to sellers in 2012. This slight easing of the market will bring about a slightly smaller increase in the average price this year (+4 per cent in 2012, versus +7 per cent in 2011). The average MLS® price will then reach $244,000. It should also be mentioned that the analysis of the Gatineau market by sector showed that the average price should rise less significantly in the outlying zones of the metropolitan area. In these various municipalities, the market is already favouring buyers, a situation that is normally characterized by smaller price increases.

In 2013, MLS® sales will be at about the same level as in 2012, with the demographic and economic environment having remained relatively similar from one year to the next. Given the ever-growing supply, the increase in the average price will also be smaller.

Multiple-unit housing to drive the increase in starts in 2012

For the past few years, single-detached home starts have been decreasing in the Gatineau area and in most other major centres in Quebec. While single-detached homes represented over half of the housing starts in the Gatineau area in the early 2000s, this share has now dropped to 33 per cent. Several reasons may account for this decline. First, single-detached homes have generally become less affordable, which limits the number of potential buyers. Second, land prices have increased considerably over the past few years in the Ottawa-Gatineau census metropolitan area, which has likely prompted builders to shift away from single-detached homes in favour of multiple-unit housing (semi-detached houses, row homes and apartments). Third, given the demographic changes observed across Quebec, including in the Gatineau area, this housing type is perhaps becoming less and less suitable for an aging population.

For all these reasons, but also on account of the losses of relatively high-wage jobs that will occur in the area over the next two years, single-detached housing starts will decrease by 14 per cent in 2012 (to 675 units) and by 7 per cent in 2013 (to 625 units). It should be mentioned that, in the first quarter of 2012, construction of single-detached homes had already dropped by 24 per cent from a year earlier.

It was a completely different story in the multiple-unit housing segment, whose market share has clearly benefited from the decline in the single-detached housing segment. Condominium apartment construction was largely responsible for the increase. This rise will continue throughout the year, as foundations will be laid for about 750 units in 2012 (versus 557 in 2011). This major gain will be mainly attributable to the construction of two large projects totalling some 300 units on île de Hull. The scarcity of lots and the City's policy on new buildings with three or more storeys (property tax grant) in Hull explain this activity.

Rental apartment starts will also post an increase by the end of 2012. In addition to the 350 privately initiated apartments that will be built this year, the City of Gatineau is planning the construction of some 250 affordable housing units. Among the affordable housing projects to be started in the area in 2012, two will be located in Hull and Buckingham. Semi-detached and row homes, for their part, will

record a slight decrease this year with 600 units, compared to 659 in 2011. The affordability of houses of this type allows them to post a relatively better performance than single-detached homes. In all, multi-unit housing starts should reach 2,000 units this year, for an increase of 24 per cent over last year. This gain will allow the Gatineau area to end the year with some 2,700 housing starts (+12 per cent).

On the geographic front, the Aylmer sector will see the most construction in 2012, thanks to the many lots that are available there. However, given the large projects that will be built in Hull, this sector will gain in significance this year.

In 2013, housing starts will drop by 18 per cent in the Gatineau area, in both the single-detached and multiple-unit housing segments. The hesitant job market, rising mortgage rates and growing supply on the resale market are all factors that are working in favour of a decrease in activity on the new home market. The simultaneous construction of several large projects in 2012 is another factor that explains the expected decline next year. However, if for a variety of reasons, some of these projects were to get under way in 2013 instead of 2012, the expected increase in housing starts this year would be smaller than anticipated and, consequently, the decrease in construction in 2013 would also be smaller than anticipated.

Vacancy rate to remain low in 2012

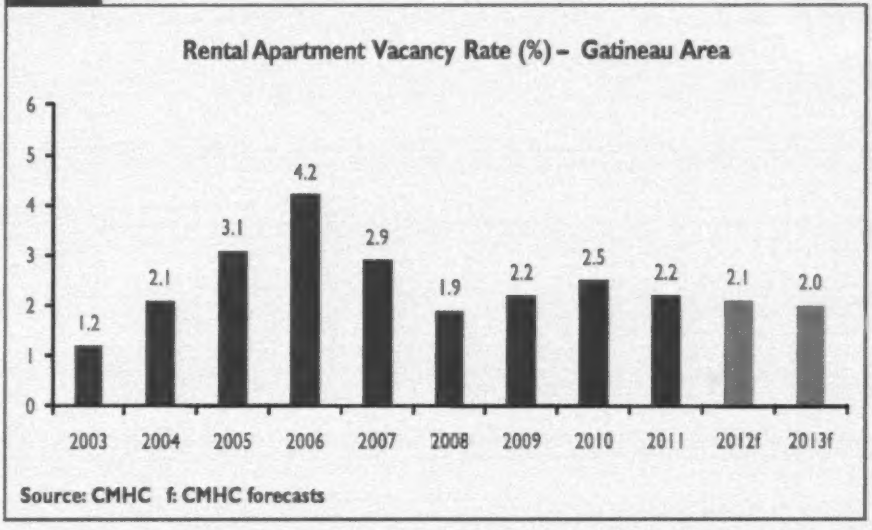
The rental housing vacancy rate was 2.2 per cent in 2011 in the Gatineau area, a rate relatively similar to the levels posted in the four last years. The same trend should continue this year and next year, as the vacancy rate should reach 2.1 per cent in 2012 and then 2.0 per cent in 2013.

On the supply side, some 300 units should be added to Gatineau's rental housing stock in 2012, a moderate increase overall. Demand for rental apartments will grow essentially at the same pace as supply and will be mainly fuelled by immigrants and Canadians (including Quebeckers) coming to settle in the Gatineau area.

The relatively few vacancies will still affect the increase in rents in 2012. The average monthly rent for two-bedroom apartments is expected to reach $750 in 2012 and $765 in 2013.

In the retirement rental market segment, the vacancy rate (19.3 per cent in 2011) should fall in 2012 and 2013, as a result of a stable supply of units—no new privately initiated construction is planned—and an increase in the population aged 75 years or older in the area, the main client group for retirement homes. Finally, let's mention that the construction of social housing units for seniors in the city of Gatineau that will occur in 2012 should not affect existing private residences, because they cater to different client groups.

Figure 3



Source: CMHC f: CMHC forecasts

Forecast Summary Gatineau CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market[1]							
MLS® Sales	4,335	4,238	3,859	4,050	4.9	4,000	-1.2
MLS® Active Listings	2,181	1,825	1,929	2,250	16.6	2,375	5.6
MLS® Average Price ($)	206,005	218,620	234,268	244,000	4.2	251,000	2.9
New Home Market							
Starts:							
Single-Detached	1,056	910	784	675	-13.9	625	-7.4
Multiples	2,060	1,777	1,636	2,025	23.8	1,600	-21.0
Starts - Total	3,116	2,687	2,420	2,700	11.6	2,225	-17.6
Average Price ($):							
Single-Detached	261,948	310,479	346,788	357,000	2.9	365,000	2.2
New Housing Price Index (% chg.) (Ottawa-Gatineau)	1.5	4.0	3.0	2.3	-	2.5	-
Rental Market[2]							
October Vacancy Rate (%)	2.2	2.5	2.2	2.1	-	2.0	-
Two-bedroom Average Rent (October) ($)	690	711	731	750	-	765	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	168,300	168,800	172,500	173,500	0.6	174,500	0.6
Employment Growth (%)	-1.1	0.3	2.2	0.6	-	0.6	-
Unemployment rate (%)	5.9	6.6	6.8	6.6	-	7.0	-
Net Migration	3,027	2,410	2,641	2,600	-1.6	2,550	-1.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC Forecast (2011-2012)

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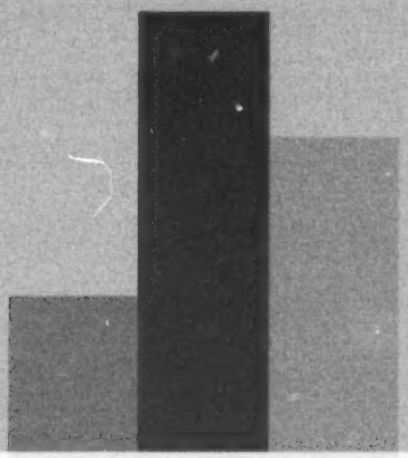

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